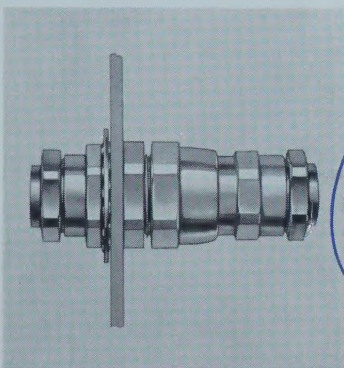
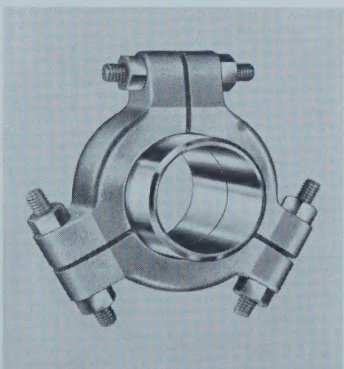
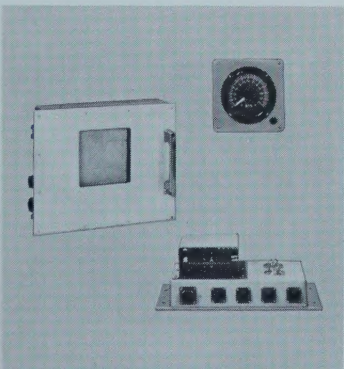
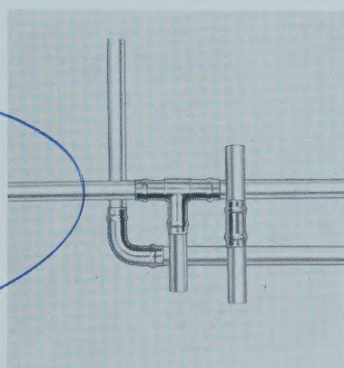


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Aeroquip

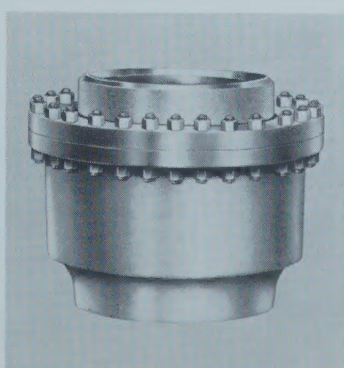
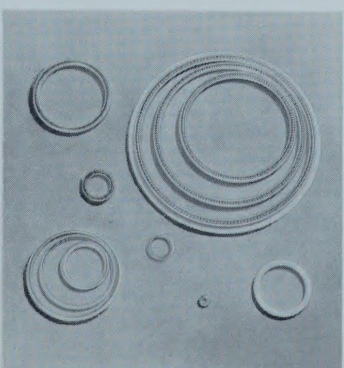
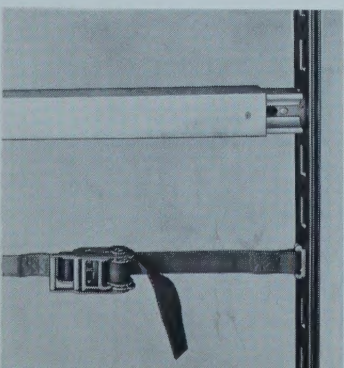


File
**AEROQUIP
CORPORATION**



ANNUAL REPORT

For the year ended September 30,
1966



**Serving
All Capital
Goods
Industries**

Products

Aeroquip manufactures products which carry liquids and gases from one outlet to another. These products include hose made of synthetic rubber and thermoplastics, and various types of metal fittings, couplings, clamps and joints. In addition, Aeroquip produces cargo control systems, speed recorders, and rubber products such as conveyor belts and packing.

Hose and Fittings:
 Low Pressure
 Medium Pressure
 High Pressure
 Extra and Super High Pressure
 Engine and Air Brake
 Teflon
 Suction and Discharge
 Petroleum Drilling and Transfer
 Marine
 Refrigerant
Fittings:
 Space-Craft Brazed
 Tube and Adapter
 Omniseals
 Oil Seals

Couplings, Fluid Conveying
 Self-Sealing, Push-Pull
 Special Purpose
 Aerospace
 Refrigerant, Self-Sealing
 and One-Shot
 Cargo Transfer
 V-Band with Flanges

Joints:
 Conoseal
 Ball, Rotary and Swivel
 Flexmaster, Pipe and
 Tube
 Bellows, Joints and
 Ducting Assemblies
 Elbow and Tubing
 Assemblies
 Clamps and Straps:
 Hose, Band and Support

Railroad:
 Automatic Fueling Units
 Speed Recorders and
 Indicators:
 Electronic
 Mechanical
 Electronic Speed Informa-
 tion System
 Life-Gard Safety Control
 Steam Heat Connectors

Rubber Products:
 Conveyor, Elevator and
 Transmission Belts
 Molded Goods
 Sheet Packing
 Extruded and Lathe
 Cut Products
 Rubber Covered Rolls

Cargo Control Systems:
 Ratchet Buckles and
 Straps
 Track and Fittings
 Shoring Beams
 Cargo Release Hooks
 Cargo Nets and Slings

Aeroquip



WORLDWIDE

Markets

(BOTH CAPITAL
 AND REPLACEMENT
 GOODS)

Trucks and Buses
 Construction Equipment
 Diesel Engines
 Mining and Aggregates
 Farm Tractors and
 Implements
 Logging

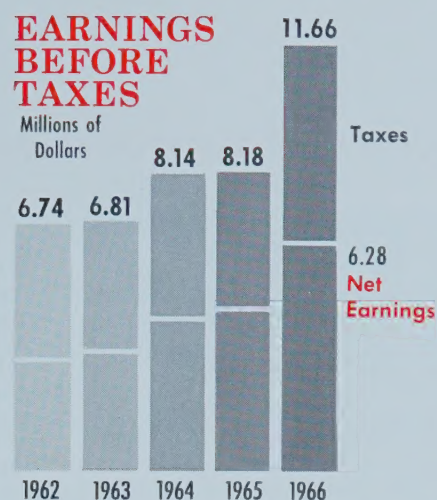
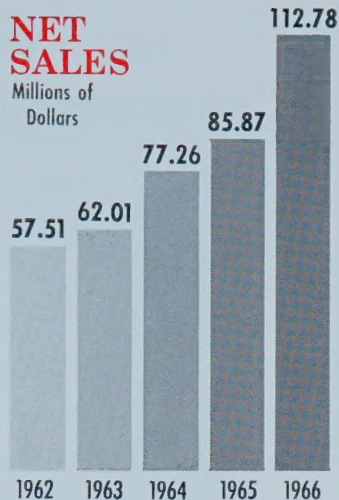
Materials Handling
 Lift Trucks
 Plant Maintenance
 (all industries)
 Machine Tools

Marine (Ships, Boats, and
 Docks)
 Nuclear
 Processing Industries
 Air Conditioning and
 Refrigeration
 Railroads

Heating and Piping
 Fluid Loading Equipment
 Commercial Aircraft
 Electrical Machinery
 Communications Equipment

Navy and Ordnance
 Aerospace
 Appliances
 Buildings and Plants
 Petroleum Industry

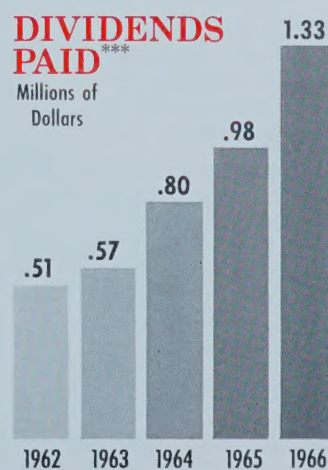
No single customer contributed over 3% of the Company's sales in fiscal 1966. In fact, Aeroquip's 40 largest customers who are manufacturers of original equipment accounted for only about 29% of the year's total volume of business. Aeroquip's operations are not overly dependent upon one particular customer or one single market.



Highlights

Fiscal
Years Ended
September 30

Fiscal years ended September 30,	1966	1965	% change
Net Sales	\$112,780,308	\$85,867,449	+31
Earnings before Taxes.....	\$ 11,655,885	\$ 8,178,943	+43
Taxes on Income.....	\$ 5,375,000	\$ 3,750,000	+43
Net Earnings	\$ 6,280,885	\$ 4,428,943	+42
Net Earnings per Share*.....	\$ 3.92	\$ 2.79	+41
Cash Dividends Paid***.....	\$ 1,328,492	\$ 980,580	+35
Working Capital	\$ 25,405,752	\$21,041,922	+21
Stockholders' Equity	\$ 35,427,728	\$30,209,254	+17
Book Value per Share*.....	\$ 22.14	\$ 19.01	+16
Common Shares Outstanding.....	1,600,490	1,513,215	+ 6



* Based on 1,600,490 shares outstanding at September 30, 1966, and 1,588,875 shares on September 30, 1965 which takes into account the 5% stock dividend paid in 1966.

** Adjusted for stock dividends.

*** In addition, stock dividends were paid as follows: 5% in 1962; 4% in 1963, 1964, 1965; and 5% in 1966.

To our stockholders:

Aeroquip's 1966 fiscal year was highlighted by record sales and earnings for the fifth successive year. Net earnings in the twelve months ended on September 30, 1966 were up 42% over fiscal 1965, with net sales increasing 31%.

In recognition of the favorable trends in operations, the Directors in January and again in July increased the regular cash dividends, first from 17½ cents per share to 22½ cents, and then to 25 cents per share. The July increment was the fifth time the cash dividend had been raised in three years.

In fiscal 1966, 68% of Aeroquip's sales represented industrial markets and 32% military applications, with both categories registering dollar gains. The change from the 1965 ratio of 70%—30% reflects the influence of expanded defense spending.

As a result of negotiations completed in fiscal 1966, the Company will not have any major labor contracts coming up for renewal for approximately 10 months. This will be very helpful in the challenging period that lies ahead. However, the new labor contracts constitute higher operating expenses, which we trust will be offset by greater productivity.

In April, 1966, our existing long-term loans were increased from \$8,100,000 to \$13,000,000. Negotiations were concluded prior to the increase in the prime rate.

A two-year revolving bank credit arrangement is presently being negotiated to provide additional borrowings up to \$16,000,000. Currently, only \$7,500,000 is available to the Company under short-term bank borrowings. These added funds should take care of our foreseeable financial requirements.

Research and development has always been one of Aeroquip's chief sources of strength. The Company's ability to design new products, develop additional applications and make product improvements is the keystone of Aeroquip's continued success. Fiscal 1966 was an outstanding year in this respect. Our new FC-107 hose is typical of these endeavors. This hose assembly is not only a lower cost product with longer operating life, but its many applications in industrial markets include several that are brand new for Aeroquip.

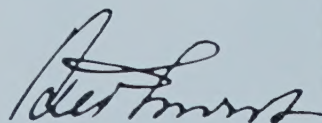
At the close of the 1966 fiscal year, Aeroquip's backlog was at the highest level in the Company's history. So far in fiscal 1967, incoming orders have continued to surpass the pace of outgoing shipments.

Some words of caution are in order however. The squeeze on profit margins is a matter of deep concern. The cost of doing business continues to rise. Strong competitive pressures are being encountered. Higher corporate income taxes are indicated. Key industries are facing major labor negotiations. These factors among others have the potential of seriously upsetting the economy.

Nevertheless, we at Aeroquip are optimistic about the future. Barring the unforeseen, we are hopeful that fiscal 1967 will be a period of progress. Another year of record sales and earnings is strongly indicated.

We again wish to express our appreciation to Aeroquip's customers, distributors, suppliers, licensees, employees and stockholders for their continued interest and support.

Sincerely,



PETER F. HURST, *Chairman of the Board and President*
November 23, 1966

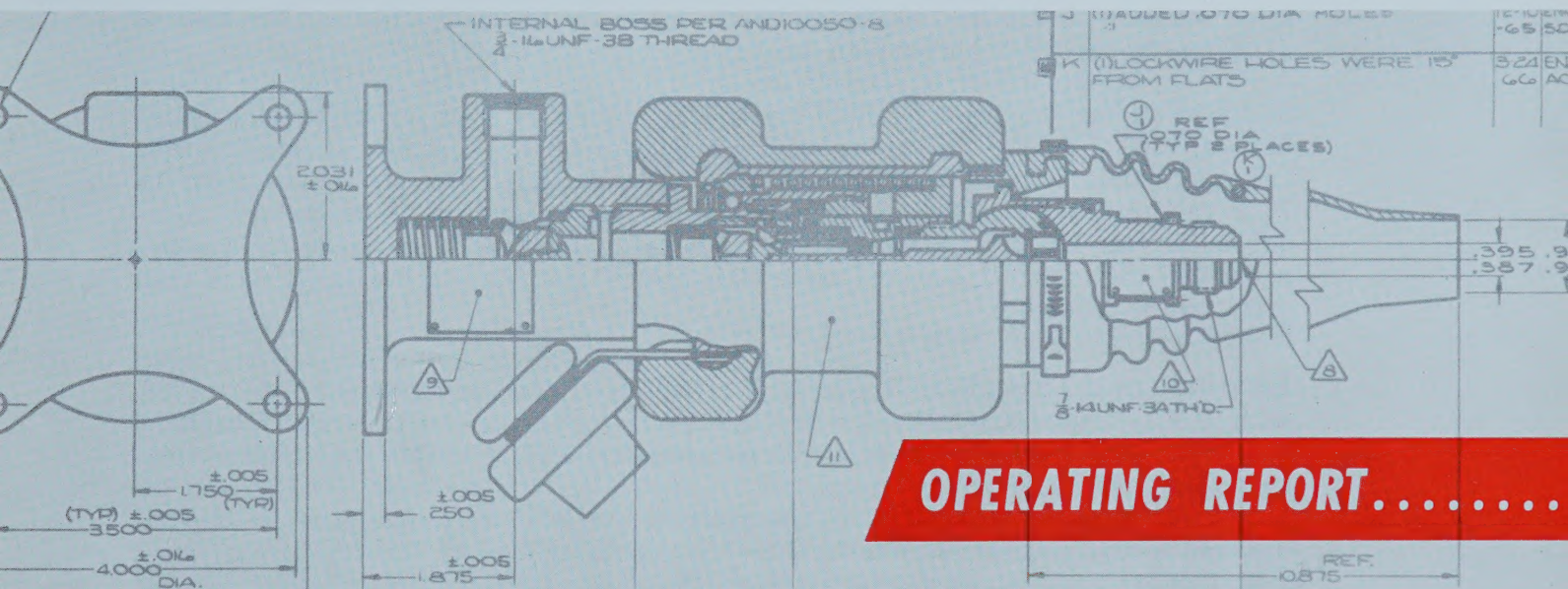


GROWTH INDEX

The accompanying figures analyze Aeroquip's results in terms of three-year periods since 1955. This information provides a longer-term view of the Company's record of progress than the conventional year-to-year comparisons, and gives effect on a broader basis to developments which have their impact on operations over a period of time.

Fiscal 1955-1966 Average Annual Performance Based on Three-Year Results

	Average Annual Sales	Growth Index	Average Annual Net Earnings	Growth Index	Average Year-End Net Worth	Growth Index
1955-1957.....	\$33,718,507	100	\$1,941,911	100	\$ 9,550,666	100
1958-1960.....	\$45,414,943	135	\$2,146,490	111	\$14,250,095	149
1961-1963.....	\$55,851,599	166	\$2,703,327	139	\$20,502,209	215
1964-1966.....	\$91,968,312	273	\$4,965,500	256	\$30,775,871	322



OPERATING REPORT.....

DISTRIBUTION OF INCOME

CONTENTS

Operating Report—Page 4
Facilities—Page 9
Opportunities for Improvement—Page 10
Employees—Page 13
Stockholders—Page 14
Financial Statements—Page 15
Statistical Review—Page 18
Directors and Officers—Page 20



53.0% Goods and Services

Including raw materials, parts and supplies bought from others

34.0% Payrolls

Wages, salaries and fringe benefits

5.7% Taxes

Federal, state, local and foreign

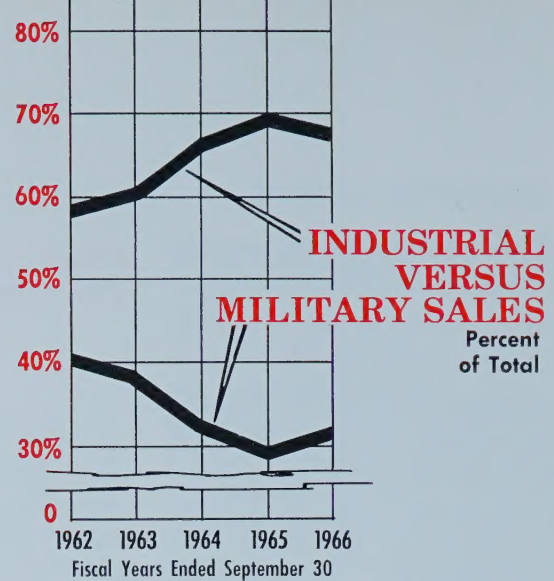
1.7% Depreciation and Amortization

Tools wearing out

NET EARNINGS

5.6% of which

1.2% was cash dividends paid to stockholders and
4.4% was retained in the business to pay for future progress



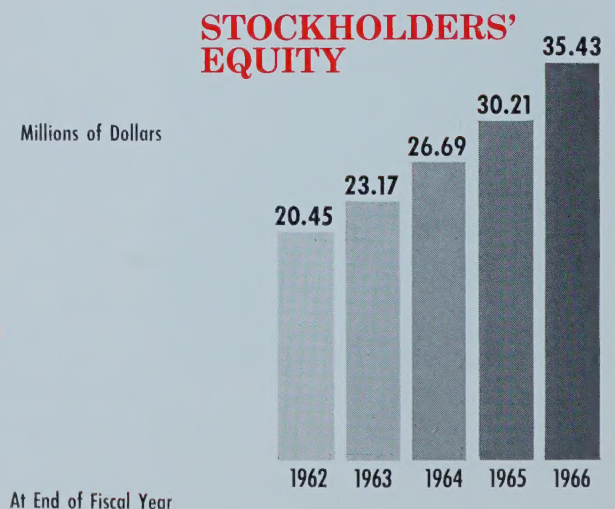
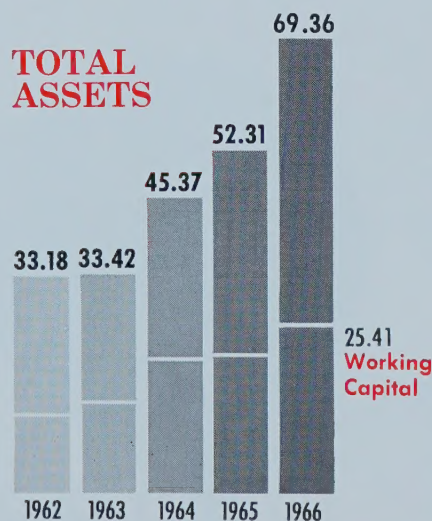
Sales Aeroquip reached a milestone in the fiscal year that ended September 30, 1966 when sales totalled over \$100,000,000 for the first time in the Company's history. Net sales of \$112,780,308 were 31% higher than fiscal 1965 volume of \$85,867,449.

Sales to industrial markets accounted for 68% of the year's volume, the balance being for military applications. Both industrial and military sales registered dollar gains in fiscal 1966. However, due to increased government defense spending arising from the nation's commitment in Vietnam, there was a moderate shift in the proportions from the 70-30 ratio in fiscal 1965. This does not represent a basic change in the character of Aeroquip's business. When the current intensification of military spending recedes, it is anticipated that the presently deferred needs of industrial markets will eventually more than make up the difference.

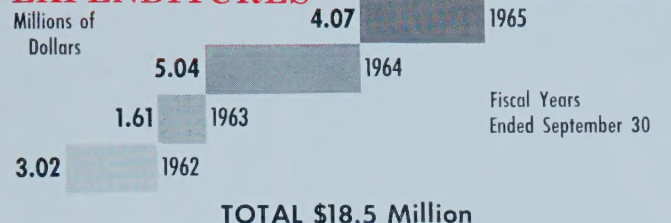
Earnings and Taxes Earnings from operations showed an improvement in fiscal 1966, with 10.3% of sales being realized as pre-tax earnings, as compared with 9.5% in fiscal 1965.

Earnings before taxes on income were \$11,655,885, or 43% more than the previous year's \$8,178,943.

A provision of \$5,375,000 was made for U.S. and foreign income taxes, amounting to 46% of pre-tax earnings. In fiscal 1965, income taxes were \$3,750,000, also equivalent to 46% of pre-tax earnings. During the year under review, the Company utilized investment tax credits in the amount of \$181,000.

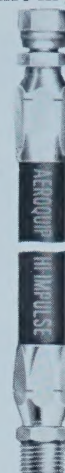


CAPITAL EXPENDITURES



NEW
HI-IMPULSE Aeroquip Hose Assemblies
 deliver three times the impulse life...offer
 longer service life in your applications

New developments in double wire braid hose construction now offer you much longer service life than you get from standard S.A.E. 100-R2 hose assemblies. New Aeroquip 2781 HI-IMPULSE Hose with Reusable Fittings has been proved to have three times the impulse life of ordinary assemblies. This means that in normal high pressure applications you will now get increased service life. Aeroquip HI-IMPULSE Double Wire Braid Hose Assemblies also are



rated at operating pressures up to 40% higher than equivalent 100-R2 assemblies.

Results? Reduced downtime, longer service life, more dependability. And fittings are reusable, offering you further savings.

Your Aeroquip Distributor has new, money-saving HI-IMPULSE Double Wire Braid Hose and Reusable Fittings in stock. Call him today for replacement hose and fittings. He's under "Hose" in your Yellow Pages.

HI-IMPULSE is a registered trademark of Aeroquip Corp.

Aeroquip

Record net earnings of \$6,280,885 in the 1966 fiscal year, which were 42% greater than net earnings of \$4,428,943 the year before, were equal to \$3.92 per share on the 1,600,490 shares outstanding on September 30, 1966. Fiscal 1965 net earnings were equal to \$2.79 per share based on 1,588,875 shares outstanding at the end of the fiscal year (adjusted for the 5% stock dividend paid in 1966).

Net earnings in fiscal 1966 were equivalent to a return of 20.8% on stockholders' equity as of the beginning of the year, as compared with 16.6% in fiscal 1965.

Dividends Aeroquip has paid cash dividends on its common stock for 20 consecutive fiscal years, and stock dividends for 11 successive fiscal years.

In the 1966 fiscal year, the Board of Directors raised the dividend rate twice, for a total of five times in three years. On January 24, 1966, the quarterly payment was increased from 17½ cents per share to 22½ cents, and on July 21, 1966 it was advanced to 25 cents per share. Previously, the quarterly dividend had been increased to 17½ cents on January 25, 1965; to 15 cents on July 27, 1964; and to 12½ cents from 10 cents on July 25, 1963.

Fiscal 1966 dividends totalled 87½ cents per share, consisting of one payment of 17½ cents, two of 22½ cents and one of 25 cents. In addition, on July 21, 1966, a 5% extra dividend in stock was voted, payable September 30 to holders of record August 15. The stock dividend had a cash value equivalent to \$2.03 per share based on the closing price of the Company's stock on the New York Stock Exchange on the day of declaration.

FLOW OF FUNDS

Year Ended September 30

Funds Came From:

	1966	1965
Net Earnings	\$6,280,885	\$4,428,943
Depreciation	1,879,552	1,693,950
Additions to Long-Term Debt—Net	3,785,200	—0—
Exercise of Stock Options	266,081	70,260
	<u>\$12,211,718</u>	<u>\$6,193,153</u>

Funds Were Used For:

	1966	1965
Dividends	\$ 1,328,492	\$ 980,580
Plant and Facilities — Net	4,917,354	4,087,983
Decrease in Long-Term Debt—Net	—0—	764,203
Other Assets	1,602,042	14,298
	<u>\$ 7,847,888</u>	<u>\$5,847,064</u>
Added to Working Capital	4,363,830	346,089
	<u>\$12,211,718</u>	<u>\$6,193,153</u>



Aeroquip's new, ultra-modern "White Room" facility in Jackson, Michigan provides extremely high levels of cleanliness for the processing of critical aerospace products. These are packaged into airtight bags and are kept in absolutely clean condition until they are unpacked.

In fiscal 1965, there were cash dividends aggregating 67½ cents per share plus a stock dividend of 4%.

Cash dividend payments of \$1,328,492 in the 1966 fiscal year compared with \$980,580 in the previous year.

Financial Condition Working capital of \$25,405,752 on September 30, 1966 represented a year-end peak for Aeroquip. The Company had \$47,108,283 of current assets and \$21,702,531 of current liabilities, for a current ratio of 2.17 to 1. Twelve months earlier, working capital was \$21,041,922, with a 2.54 to 1 current ratio.

The Company's long-term loan agreements with banks and the Prudential Insurance Company were increased in April 1966 to \$13,000,000 from \$8,100,000. This arrangement was completed before the rise in the prime rate.

Under the new agreements, the weighted average interest cost is 5⅛% on the bank portion of the loan and 5.32% on the Prudential portion.

The bank loan, amounting to \$8,000,000, will be repaid starting on December 31, 1966 with the final payment to be made in the 1973 fiscal year. The \$5,000,000 Prudential loan will be repaid beginning September 30, 1973 with the final payment in fiscal 1978.

The terms of the new loan agreements do not impose any significant restrictions on the Company. The requirements as to working capital, cash dividends and foreign investments do not represent, from a practical point of view, material limitations on the Company's activities.

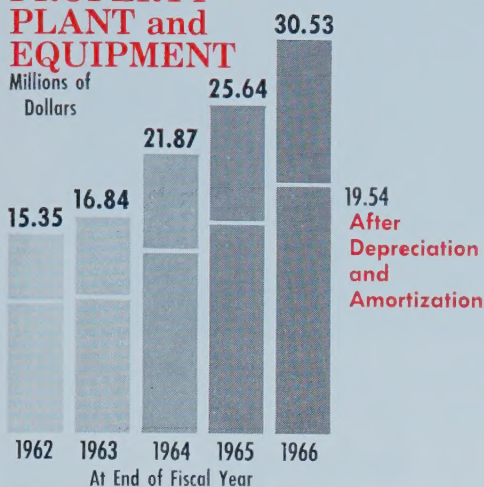
In addition, negotiations are being completed for a \$16,000,000 two-year revolving bank credit with the National Bank of Detroit and participating banks. Interest is to be at the prime rate plus ¼%. Other terms of the proposed arrangement will contain provisions substantially comparable to those existing under the present bank loan agreement.

Capital Expenditures The continued upward trend in sales has necessitated a steady expansion of facilities and equipment. In fiscal 1966, Aeroquip spent \$4,744,000 for such capital improvements, as compared with \$4,070,000 in the 1965 fiscal year.

All of the Company's principal areas of activity participated in these expenditures, and a capital improvements program of similar scope is anticipated for fiscal 1967, with particular emphasis on production machinery.

PROPERTY PLANT and EQUIPMENT

Millions of Dollars



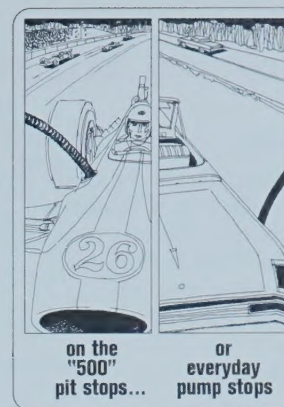
Lowest Torque, 3,000 psi at -40 to +225°F in Hydraulic Applications

There was a need in the hydraulic industry for a low-cost, high-quality swivel joint... one that could deliver longer life and lower torque. So Barco built one. And it has been thoroughly tested by our engineers to meet our exacting requirements.

New Barco Balanced Pressure Swivel Joints with double TRI-RING seals and large bearing area are now available in 1/4" to 1" sizes to meet 3000 psi operating pressures with minimum pressure drop and temperatures from -40°F to +225°F. They provide two major benefits.

Hose twisting, fatigue and premature hose failure are eliminated. Balanced pressure design provides free swiveling with very low torque under pressure. Result: minimum torsional working stress, increased hose life. As much as 50% reduction in the amount of hose needed. Swivel joint installations eliminate the need for long radius bends.

For more detailed information on new Series 5500 Barco Balanced Pressure Swivel Joints write for Catalog 1003 today, Aeroquip Corporation, Barco Division, 500 Hough St., Barrington, Illinois. Aeroquip products are protected by international patents.



You'll find lightweight, flexible Republic fuel-handling hose

VOLU-FLEX™ TANK UNLOADING HOSE for gravity or pressure discharge service. This hose is used by pit crews at the annual Indianapolis "500" Race. The lightness and flexibility of its nylon reinforcement minimizes unloading time, provides real handling ease. The hose is static grounded through the couplings.

WIRETEX™ GASOLINE PUMP HOSE for curb pump service. This superior gasoline dispensing hose has low cubical expansion and withstands high working pressures. Extremely resistant to wear and damage, it delivers long life under the most adverse service conditions. Hose is static grounded through the couplings.

For complete facts on the Republic line of tank unloading, dump and pump hoses, request Catalog 214 from Aeroquip Corporation, Republic Rubber Division, 1410 Albert St., Youngstown, Ohio 44501. Or contact your local Republic Distributor. Aeroquip products are protected by international patents.



At the 1966 fiscal year-end, the balance sheet cost value of Aeroquip's land, buildings, machinery, and equipment was \$30,533,478, which included approximately \$1,100,000 for land.

Review of Operations All of the Company's operations were on a profitable basis in fiscal 1966, with the major contributions coming from the Industrial, Aircraft and Marman Divisions.

The Industrial Division had an outstanding year that was noteworthy for the success achieved in widening the market acceptance of many of its products. The success of the Division's cargo control systems is one of many examples of product penetration on a scale previously unrealized. The Division's coverage of markets west of the Rocky Mountains is being significantly facilitated by a new plant recently opened in Reno, Nevada, replacing a smaller facility located in Burbank, California. The busy pace of the Division's operations has continued into the 1967 fiscal year.

The Aircraft Division is concerned with all types of commercial and military aircraft, including helicopters. The Division also does a great deal of business in the aerospace and missile fields. The accelerated activity experienced in fiscal 1966 was to a large extent a reflection of increased orders arising out of the Vietnam situation. However, it is important to recognize that a great deal of the Division's business is completely unrelated to military applications. The commercial and private aircraft markets have been especially good this past year.

The Company's Marman Division had outstanding results in fiscal 1966. Industrial sales were well ahead of the previous year, especially in the commercial aviation market and the nuclear devices field. At the same time, there was an upsurge in orders related to military requirements. Marman's backlog remains high and an active pace of sales has been carried over into the 1967 fiscal year.

Aeroquip's Barco Division, Republic Rubber Division, and subsidiaries in Canada and Germany all had an active year in fiscal 1966. Prospects are encouraging for increased sales volumes in 1967.

When the 1966 fiscal year ended, the Company's total backlog of unfilled orders was at an all-time high, approximately 95% above what it was at the start of the year.

SIMPLIFIED BALANCE SHEET

At September 30, 1966

Assets

Cash and Temporary Cash Investments...	\$ 1,435,000
Amounts Due from Customers.....	15,987,000
Products and Materials on Hand.....	29,479,000
Property, Plant & Equipment,	
Less wear and tear.....	19,537,000
All Other Assets	2,921,000
	<u>\$69,359,000</u>

Liabilities

Amounts Due for Payment during	
the 1967 Fiscal Year.....	\$21,703,000
Long-Term Debt	12,229,000
To Stockholders for their	
investment in the business.....	18,835,000
To Stockholders for earnings	
retained in the business.....	16,592,000
	<u>\$69,359,000</u>

**Marman CONOSEAL® Joints must be
the best for Airborne Ducting**



Cross section through circumference of joint shows the Marman all-metal CONOSEAL gasket, a proprietary feature, which nests between the mating surfaces of the joint. As the flanges move together under tension, the gasket is loaded radially against the seating surfaces of the flange lips. The gasket acts as a spring and induces a plastic flow condition to mechanically form the seal.

Aerospace, ground support and nuclear industries rely on Marman's complete capability for the best in high performance fluid line components and coupled assemblies. Many of your requirements can be met with standard Marman hardware. Or, Marman can provide you with the specialized facilities and more than 25 years' experience in the design, testing and manufacture of airborne equipment that can meet

your exact specifications with the shortest lead time and greatest economy. To find out more about your best single source for solving ducting and joining problems, and the only source for CONOSEAL joints, contact your Marman Field Engineer or write: Aeroquip Corporation, Marman Division, 11214 Exposition Blvd., Los Angeles, California 90064. Aeroquip products are protected by international patents.

Aeroquip
MARMAN DIVISION

Foreign Business Aeroquip's activities outside of the United States include plants in Canada and in Germany. Licensee arrangements exist with firms in Australia, England, France, Italy, Japan, Scotland and Spain. Associated companies in which Aeroquip has a stock interest are located in Mexico, Brazil, England and Japan. The Company also has distributors in 82 cities all over the world, and makes direct export sales to foreign markets.

In fiscal 1966, export sales and those of foreign subsidiaries and affiliates registered a 30% increase over the prior year. Sales of foreign licensees were at approximately the same level as in fiscal 1965.

Advertising There were 171 Aeroquip advertisements prepared in fiscal 1966. These appeared a total of 867 times in 208 publications.

The Company participated in 23 trade shows and Aeroquip distributors took part in 57 similar exhibits.

A total of 4,600,000 pieces of advertising literature were used in fiscal 1966, including 1,250,000 direct mail folders. The Company and its distributors contracted for 587 telephone directory advertisements and 189 highway signboards.

Over 38,000 copies of the Company's magazine, The Flying "A", are mailed to customers, suppliers, distributors, stockholders, employees and others, bringing information and news of Aeroquip's products and services to worldwide attention.

Renegotiations Sales that are subject to renegotiation have been reviewed and cleared by the Government through the 1963 fiscal year, without requiring any refunds.

It is the Company's policy with respect to the prices in such contracts to adhere to consistently fair standards, so as to eliminate the future need for any refunds.

Annual Meeting The next Annual Meeting of Stockholders will take place Monday, January 23, 1967 at 2:00 P. M. (E.S.T.), at the Company's executive offices in Jackson, Michigan. Proxy material is enclosed with copies of this Annual Report being mailed to registered stockholders as of the November 25, 1966 record date for voting at the meeting. Stockholders are requested to vote, sign and return their proxies as soon as possible.

Facilities



Over 1,000
Distributors in the Major Cities
of the United States and Canada

 **Aeroquip**



Industrial Division

Van Wert, Ohio
Reno, Nevada
Dallas, Texas
Portland, Oregon
Cranbury, New Jersey
Atlanta, Georgia
Leslie, Michigan

Aircraft Division

Jackson, Michigan (2)
Burbank, California
Dallas, Texas

Marman Division

Los Angeles, California
San Diego, California
Burbank, California

Barco Division

Barrington, Illinois

Republic Rubber Division

Youngstown, Ohio
Houston, Texas

Aeroquip (Canada) Ltd.

Toronto, Ontario
Montreal, Quebec
Vancouver, B. C.
Winnipeg, Manitoba
Edmonton, Alberta

Aeroquip G.m.b.H.

Baden-Baden, Germany
Hann. Muenden, Germany

Licensees

Melbourne, Australia
Birmingham, England
Paris, France
Torino, Italy
Tokyo, Japan
Glasgow, Scotland
Palamos, Spain
Sevilla, Spain

Associated Companies

Aeroquip Mexicana, S. A.
Toluca, Mexico
Aeroquip Sulamericana Industria
e Comercio, S. A.
Rio de Janeiro, Brazil
Edward Yates & Sons, Ltd.
Marple, Cheshire, England
Toyo Joint Co., Ltd.
Tokyo, Japan

WORLDWIDE



Foreign Distributors are located in 82 cities around the world.

Above all else, the key to a successful business is capable people. If you don't have competent and interested men and women in the organization, then the best equipment and the most modern facilities are meaningless. Product ideas come from people. Sales techniques come from people. Production efficiency comes from people.

When Aeroquip invests large sums of money in capital expenditures, and in research and development, the Company is investing in the ability of its personnel to use these resources as tools for accomplishment.

Intrinsic to this achievement is the availability of programs to train new people and to increase the skills of existing Company and distributor personnel.

At Aeroquip, we believe that constant opportunity to better one's position is essential to an enterprise such as ours.

OPPORTUNITIES *for* IMPROVEMENT

INDUSTRIAL DIVISION TRAINING CENTER

Jackson, Michigan

This unique facility provides extensive sales training courses for the personnel of distributors affiliated with Aeroquip's Industrial Division and Republic Rubber Division. Aeroquip's own sales engineers also participate in these field-oriented courses.

Participants receive practical instruction in all phases of the business that are important to the sales of Aeroquip's products.



The new Aeroquip Industrial Training Center building has 8000 sq. feet of floor space.

AIRCRAFT DIVISION

Jackson, Michigan

One area of training sponsored by the Aircraft Division is a cooperative program with local high schools in which students attend school classes for half of the day, and work at the plant the remainder of the day. When the vocational program is completed and the trainee has finished his high school studies, he is afforded the opportunity of becoming a full-time employee.

Another project at the division is the Plant Skill Training Program, which is aimed at developing automatic screw machine operators, electricians, carpenters, machine repairmen, etc. This program enables personnel to advance to higher, better paying assignments.



AIRCRAFT DIVISION

Burbank, California

A Supervisory Development Training Program (photo above) is conducted both for supervisors at the foreman level and for office department managers, providing advanced instruction in managerial techniques and procedures, and in methods for their application on a consistent basis.



Seminar type training sessions are held in this newly enlarged conference room.



Shop work is conducted in a modern workshop area complete with all Aeroquip hose assembly equipment.

BARCO DIVISION

Barrington, Illinois

Under the division's College Graduate Training Program, each year several graduates are hired to take part in a 15-month training course that includes accounting, materials control, shop and scheduling, engineering and test laboratory, and sales and customer service. Not only are these employees made familiar with the jobs and functions of the respective departments, but at the same time they are usefully engaged in productive work.

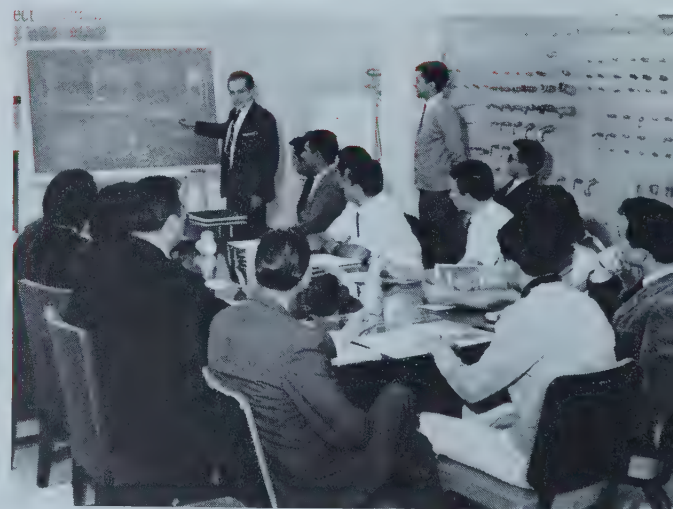
A program, in coordination with local high schools, allows students to work a half day at the plant and receive school credit for this activity. Upon graduation from high school, students may remain as full-time employees, receiving further training and having access to higher paying jobs.



REPUBLIC RUBBER DIVISION

Youngstown, Ohio

Every new supervisor, whether being advanced through the ranks or hired from the outside, is enrolled in a training course at the Human Engineering Institute. Subjects include administration, work force analysis, job incentives, and employee orientation. Participants receive instruction in the execution of specific duties from department managers under actual working conditions.



AEROQUIP MEXICANA, S. A.

Toluca, Mexico

Aeroquip's associated company in Mexico conducts a program of training courses for its own employees and those of its distributors. These sessions cover all aspects of the firm's operations, including sales techniques and quality control procedures.

***"a COMPANY for
CAREER OPPORTUNITIES"***

is the theme of Aeroquip's College Recruitment Program. Its purpose is to induce young graduates to explore the many opportunities available at Aeroquip. The program is directed at young men with ambition and talent whose goal is a career of accomplishment.

* * *
Visits by the personnel directors of Aeroquip's plants to colleges in their areas is a major phase of the program. Through this program, college students, graduates and faculty members become aware of Aeroquip's role in the business community.

* * *
At appropriate times during the year, arrangements are made for interviews. To assure maximum coverage, and to suit the schedules of the students, other Aeroquip executives are frequently called upon to assist in conducting interviews.

* * *
A special brochure has been prepared for distribution to college placement centers. It is also sent to college students whose names are submitted by the Company's own personnel as being potentially interested in working for Aeroquip.

* * *
The brochure emphasizes the excellent opportunities for advancement that are open to everyone at Aeroquip. Examples of the progress achieved by specific individuals are given to illustrate what can be attained when you are part of a growth-minded company. Included in the presentation is a booklet describing the advantages of the Company's Profit Sharing Fund, another special feature that makes Aeroquip an outstanding organization to work for.

* * *

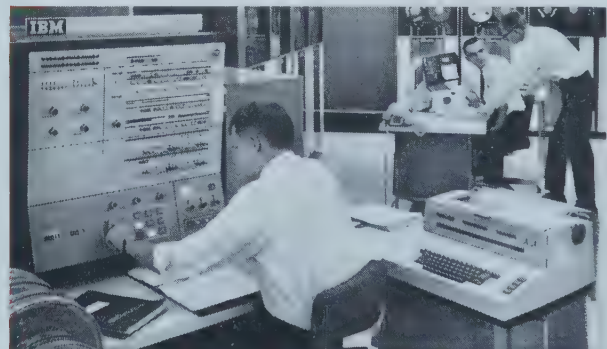


Employees

In the course of the 1966 fiscal year, the number of Aeroquip employees rose from 3,895 to 4,692. During the year, \$38,321,987 was paid or set aside for wages, salaries and fringe benefits for employees.

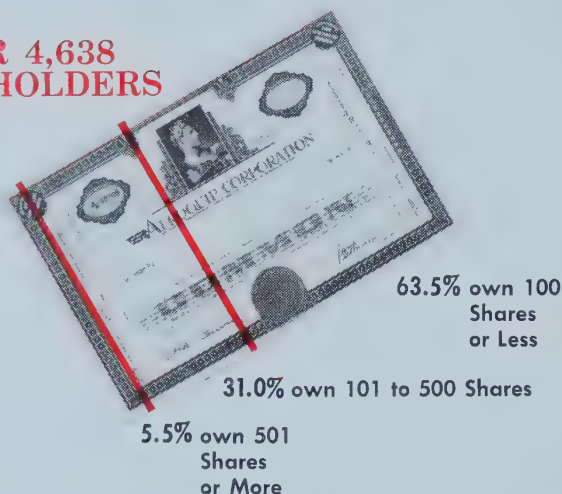
Fringe benefits amounted to approximately 28% of direct compensation and included, among other benefits, pension or profit sharing programs, paid vacations, holiday pay, payments for old age, survivors' and disability insurance, and unemployment and workmen's compensation.

Fringe benefits also included for eligible employees and their families several forms of insurance protection such as life, sickness, accident, hospitalization and surgical coverage, with the Company paying a major share of the cost.



John Abbey, Director of Engineering (left) and Don T. McKone, Executive Vice President are shown here discussing Aeroquip's FC-107 hose, a major new development which offers industrial users lower cost hose assemblies with longer operating life.

OF OUR 4,638 STOCKHOLDERS



Stockholders

Aeroquip Corporation is owned by 4,638 registered stockholders. In addition, the holdings of brokerage firms are estimated to represent an additional 2,000 beneficial owners.

According to the latest analysis of the Company's stockholder list, there are shareholders residing in 49 states, the District of Columbia and 7 foreign countries. Michigan, New York, Ohio, Illinois, Pennsylvania and California are the states having the largest number of stockholders.

The distribution of the shares according to category of ownership is as follows:

	<i>Number Of Holders</i>	<i>Shares Owned</i>
Men	35%	25%
Women	24%	21%
Joint Accounts ..	27%	7%
Brokers, Nominees and Others..	14%	47%
Total	100%	100%

Many of the Company's employees have acquired an ownership interest in the Company's shares by virtue of their participation in the Company's various profit sharing funds. As of September 30, 1966, these funds owned a total of 147,016 shares of Aeroquip common stock.

Comparative Consolidated Balance Sheets

	As of September 30	1966	1965
Assets			
CURRENT ASSETS			
Cash and temporary cash investments.....		\$ 1,434,981	\$ 1,264,195
Accounts receivable (less allowances of \$230,000 at September 30, 1966 and \$155,000 at September 30, 1965).....		15,987,273	12,811,405
Inventories at lower of cost or market.....		29,478,592	20,451,376
Prepaid expenses		207,437	168,844
TOTAL CURRENT ASSETS.....		<u>\$47,108,283</u>	<u>\$34,695,820</u>
PROPERTY, PLANT AND EQUIPMENT			
Land, buildings, machinery and equipment, at cost.....		\$30,533,478	\$25,643,577
Less accumulated provisions for depreciation and amortization		10,996,458	9,144,359
		<u>\$19,537,020</u>	<u>\$16,499,218</u>
OTHER ASSETS (Notes 2 and 3)		2,714,180	1,112,138
TRADEMARKS, PATENTS AND GOODWILL		1	1
		<u>\$69,359,484</u>	<u>\$52,307,177</u>
Liabilities and Stockholders' Equity			
CURRENT LIABILITIES			
Notes payable to banks.....		\$ 5,000,000	\$ 928,226
Accounts payable and accrued expenses.....		11,468,167	8,931,325
U.S. and foreign taxes on income.....		3,799,064	2,870,547
Current maturities on long-term debt.....		1,435,300	923,800
TOTAL CURRENT LIABILITIES....		<u>\$21,702,531</u>	<u>\$13,653,898</u>
LONG-TERM DEBT (Note 4)		12,229,225	8,444,025
STOCKHOLDERS' EQUITY			
Common stock (Notes 5 and 6)		\$ 1,600,490	\$ 1,513,215
Other paid-in capital (Capital surplus)		17,235,096	14,198,302
Earnings retained for use in the business (Earned surplus) (Note 4)		16,592,142	14,497,737
TOTAL STOCKHOLDERS' EQUITY..		<u>\$35,427,728</u>	<u>\$30,209,254</u>
		<u>\$69,359,484</u>	<u>\$52,307,177</u>

See Notes to Financial Statements.

Comparative Statements of Consolidated . . .

	Year ended September 30	1966	1965
EARNINGS			
Net sales		\$112,780,308	\$85,867,449
Cost of products sold		86,319,536	65,841,758
		<u>\$ 26,460,772</u>	<u>\$20,025,691</u>
Selling and administrative expenses		14,464,699	11,879,571
		<u>\$ 11,996,073</u>	<u>\$ 8,146,120</u>
Royalties and miscellaneous income		462,446	592,241
		<u>\$ 12,458,519</u>	<u>\$ 8,738,361</u>
Interest on borrowed money and other deductions		802,634	559,418
EARNINGS BEFORE TAXES ON INCOME		<u>\$ 11,655,885</u>	<u>\$ 8,178,943</u>
Provision for U.S. and foreign taxes on income		5,375,000	3,750,000
NET EARNINGS		<u><u>\$ 6,280,885</u></u>	<u><u>\$ 4,428,943</u></u>

SURPLUS***Capital Surplus***

Balance at beginning of year	\$ 14,198,302	\$12,640,070
Excess of quoted market prices over the par value (\$1.00) of common stock issued (76,213 shares in 1966 and 58,194 shares in 1965) as a stock dividend (5% in 1966 and 4% in 1965)	2,781,775	1,491,221
Excess of option prices over the par value (\$1.00) of common stock issued under the Stock Option Plan (11,062 shares in 1966 and 3,249 shares in 1965) (Note 6)	255,019	67,011
Balance at end of year	<u><u>\$ 17,235,096</u></u>	<u><u>\$14,198,302</u></u>

Earned Surplus

Balance at beginning of year	\$ 14,497,737	\$12,598,789
Net earnings for the year	6,280,885	4,428,943
	<u>\$ 20,778,622</u>	<u>\$17,027,732</u>
Dividends paid per share of common stock:		
Cash—\$0.875 in 1966; \$0.675 in 1965	\$ 1,328,492	\$ 980,580
Stock—5% in 1966; 4% in 1965	2,857,988	1,549,415
	<u>\$ 4,186,480</u>	<u>\$ 2,529,995</u>
Balance at end of year (Note 4)	<u><u>\$ 16,592,142</u></u>	<u><u>\$14,497,737</u></u>

See Notes to Financial Statements.

NOTES to Financial Statements

(1) The accompanying consolidated financial statements include the accounts of the Company and all its wholly-owned subsidiaries. Intercompany balances and transactions were eliminated in consolidation.

(2) Other assets include investments and advances of \$1,225,893 in a 59% owned Brazilian subsidiary acquired during 1966 and \$880,965 in four foreign affiliated companies. The Company carries these investments at cost which, in the aggregate, was approximately equal to its equity in the net assets of such companies at September 30, 1966. The Brazilian subsidiary has not been consolidated because operations are conducted in terms of a restricted currency.

(3) Includes \$60,058 indirectly advanced to officers under a split-dollar insurance program.

(4) Long-term debt obligations of the Company and its wholly-owned German subsidiary are as follows:

	<i>Principal Amount</i>	<i>Current Maturities</i>	<i>Long-Term</i>
Parent Company:			
5½% promissory notes to a group of banks, payable in \$300,000 quarterly installments to June 30, 1973.....	\$ 8,000,000	\$1,200,000	\$ 6,800,000
5.32% promissory note to an insurance company, payable in \$250,000 quarterly installments beginning September 30, 1973	5,000,000	—0—	5,000,000
Non-interest bearing promissory notes issued in connection with the purchase of assets of Barco Manufacturing Co., payable in \$50,000 quarterly installments. Next installment due January 1, 1967.....	200,000	150,000	50,000
Parent Company Total.....	\$13,200,000	\$1,350,000	\$11,850,000
German Subsidiary:			
Notes to German banks at an effective interest cost of approximately 6%, payable in quarterly installments from December 15, 1966 through December 15, 1974.....	464,525	85,300	379,225
Consolidated Total	\$13,664,525	\$1,435,300	\$12,229,225

The Loan Agreements with the banks and the insurance company impose certain limits on the payment of cash dividends and require the maintenance of a specified minimum working capital. At September 30, 1966, the Company's working capital was \$4,923,802 in excess of this minimum requirement and the same amount was unrestricted for the payment of cash dividends.

The Company has received a letter of intent from the principal banks participating in the long-term Loan Agreement which will provide additional borrowings up to \$16,000,000 under a proposed two-year revolving credit agreement at the prime rate of interest prevailing on the date of borrowing (currently 6%), plus ¼ of 1%. It is expected this proposed revolving credit agreement will contain provisions substantially comparable to those existing under the present Loan Agreement with the banks.

(5) At September 30, 1966, there were 2,000,000 shares of common stock, \$1.00 par value, authorized of which 1,600,490 shares were outstanding and at September 30, 1965, there were 1,513,215 shares outstanding.

(6) Under the Common Stock Option Plan approved by the shareholders in January, 1959, 19,659 shares of common stock were reserved as of September 30, 1966, for issuance to officers and employees at quoted market prices on the date of grant. Changes in options during the year were as follows:

	<i>Number of Shares</i>	<i>Aggregate Option Amount</i>
Outstanding, October 1, 1965.....	28,785	\$720,921
Add (deduct):		
Granted during the year.....	—0—	—0—
Exercised during the year.....	(11,062)	(266,081)
Forfeited during the year.....	(1,545)	(43,702)
Outstanding, September 30, 1966.....	16,178	\$411,138
Balance not granted	3,481	—
Total reserved	19,659	—

(7) Depreciation and amortization charged to costs and expenses amounted to \$1,879,552 in 1966 and \$1,693,950 in 1965.

(8) During 1966, approximately \$494,000 was charged to expense for contributions to pension plans for various groups of employees. Unfunded past service costs as of the anniversary dates of the various plans are estimated by independent actuaries to be \$5,100,000.

(9) On January 14, 1965, a Justice Department anti-trust indictment was returned by a Federal grand jury in Detroit, Michigan, alleging that various companies in the hose-coupling industry, including Aeroquip Corporation, have engaged in an unlawful combination in restraint of trade in that they sought to secure a favorable price classification from their suppliers for the purchase of hydraulic hose. The Company denies any violation of the anti-trust laws and a plea of not guilty has been entered. In the opinion of management and counsel for the Company, the charges made in the indictment are without foundation.

ARTHUR ANDERSEN & CO.

*To the Stockholders and
Board of Directors,*

AEROQUIP CORPORATION,
Jackson, Michigan.

We have examined the consolidated balance sheet of AEROQUIP CORPORATION (a Michigan corporation) AND SUBSIDIARIES as of September 30, 1966, and the related statements of consolidated earnings and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated earnings and surplus present fairly the financial position of Aeroquip Corporation and Subsidiaries as of September 30, 1966, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

Detroit, Michigan,
November 17, 1966.

Statistical Review

	1966	1965
	Years Ended September 30	
Net Sales	\$ 112,780,308	\$ 85,867,449
Industrial Sales (% of Total).....	68%	70%
Military Sales (% of Total).....	32%	30%
Earnings Before Taxes on Income.....	\$ 11,655,885	\$ 8,178,943
Provision for Income Taxes.....	\$ 5,375,000	\$ 3,750,000
Net Earnings	\$ 6,280,885	\$ 4,428,943
Per Share Earnings*	\$ 3.92	\$ 2.79
Dividends Paid in Cash.....	\$ 1,328,492	\$ 980,580
Per Share Cash Dividends*	\$ 0.83	\$ 0.62
Stock Dividends	5%	4%
Earnings Retained for Use in the Business.	\$ 4,952,393	\$ 3,448,363
Depreciation and Amortization	\$ 1,879,552	\$ 1,693,950
Capital Expenditures	\$ 4,744,000	\$ 4,070,000
Engineering Expenditures	\$ 4,115,000	\$ 3,911,000

	As of September 30	
Total Current Assets.....	\$ 47,108,283	\$ 34,695,820
Total Current Liabilities	\$ 21,702,531	\$ 13,653,898
Working Capital	\$ 25,405,752	\$ 21,041,922
Current Ratio	2.17 to 1	2.54 to 1
Property, Plant & Equipment—Net	\$ 19,537,020	\$ 16,499,218
Plant Area—Square Feet.....	2,066,278	1,785,876
Long-Term Debt	\$ 12,229,225	\$ 8,444,025
Stockholders' Equity	\$ 35,427,728	\$ 30,209,254
Book Value Per Share*	\$ 22.14	\$ 19.01
Total Assets	\$ 69,359,484	\$ 52,307,177
Common Shares Outstanding.....	1,600,490	1,513,215
Common Shares Outstanding, adjusted for stock dividends	1,600,490	1,588,875

* Based on shares adjusted for stock dividends. Per share cash dividends differ from dividends paid per share due to changes in the number of shares outstanding during the fiscal years.

AEROQUIP CORPORATION and Subsidiaries

1964	1963	1962	1961	1960	1959	1958	1957
\$77,257,179	\$62,006,295	\$57,511,615	\$48,036,886	\$52,325,461	\$48,232,437	\$35,686,930	\$42,793,777
67%	61%	59%	58%	61%	60%	56%	45%
33%	39%	41%	42%	39%	40%	44%	55%
\$ 8,136,671	\$ 6,811,839	\$ 6,743,644	\$ 4,265,295	\$ 5,763,079	\$ 5,551,092	\$ 1,996,458	\$ 5,188,606
\$ 3,950,000	\$ 3,550,000	\$ 3,710,000	\$ 2,450,798	\$ 3,001,190	\$ 2,856,233	\$ 1,013,735	\$ 2,601,830
\$ 4,186,671	\$ 3,261,839	\$ 3,033,644	\$ 1,814,497	\$ 2,761,889	\$ 2,694,859	\$ 982,723	\$ 2,586,776
\$ 2.64	\$ 2.07	\$ 1.92	\$ 1.15	\$ 1.76	\$ 1.72	\$ 0.63	\$ 1.65
\$ 800,285	\$ 567,527	\$ 507,992	\$ 497,167	\$ 477,654	\$ 462,867	\$ 457,268	\$ 435,494
\$ 0.50	\$ 0.36	\$ 0.32	\$ 0.32	\$ 0.30	\$ 0.30	\$ 0.29	\$ 0.28
4%	4%	5%	2%	4%	3%	5%	5%
\$ 3,386,386	\$ 2,694,312	\$ 2,525,652	\$ 1,317,330	\$ 2,284,235	\$ 2,231,992	\$ 525,455	\$ 2,151,282
\$ 1,413,140	\$ 1,110,836	\$ 944,357	\$ 944,552	\$ 825,339	\$ 713,379	\$ 632,393	\$ 581,759
\$ 5,042,000	\$ 1,606,000	\$ 3,019,000	\$ 1,187,000	\$ 3,028,000	\$ 1,423,000	\$ 844,000	\$ 1,709,000
\$ 3,394,000	\$ 2,645,000	\$ 2,062,000	\$ 2,065,000	\$ 1,947,000	\$ 1,725,000	\$ 1,549,000	\$ 1,622,000
\$30,167,590	\$22,559,056	\$22,650,932	\$18,044,599	\$16,956,718	\$17,704,326	\$12,831,829	\$14,367,448
\$ 9,471,757	\$ 8,579,346	\$10,578,811	\$ 7,314,919	\$ 6,902,584	\$ 7,419,720	\$ 4,187,270	\$ 5,731,206
\$20,695,833	\$13,979,710	\$12,072,121	\$10,729,680	\$10,054,134	\$10,284,606	\$ 8,644,559	\$ 8,636,242
3.19 to 1	2.63 to 1	2.14 to 1	2.47 to 1	2.46 to 1	2.39 to 1	3.06 to 1	2.51 to 1
\$14,105,185	\$10,395,243	\$10,024,937	\$ 8,141,801	\$ 8,083,111	\$ 6,031,739	\$ 5,285,651	\$ 5,217,384
1,635,678	920,398	908,548	721,943	714,563	534,058	446,558	446,558
\$ 9,208,228	\$ 1,675,028	\$ 2,148,726	\$ 1,523,225	\$ 2,120,450	\$ 2,350,000	\$ 2,200,000	\$ 2,600,000
\$26,690,631	\$23,168,452	\$20,454,057	\$17,884,118	\$16,545,226	\$14,242,371	\$11,962,689	\$11,437,234
\$ 16.84	\$ 14.68	\$ 12.97	\$ 11.36	\$ 10.54	\$ 9.08	\$ 7.64	\$ 7.30
\$45,370,616	\$33,422,826	\$33,181,594	\$26,722,262	\$25,568,260	\$24,012,091	\$18,349,959	\$19,768,440
1,451,772	1,389,765	1,335,333	1,269,646	1,242,919	1,194,135	1,156,944	1,101,852
1,585,334	1,578,326	1,577,171	1,574,566	1,570,282	1,568,995	1,565,737	1,565,737

Directors



PETER F. HURST
*Chairman of the Board
and President
Aeroquip Corporation*



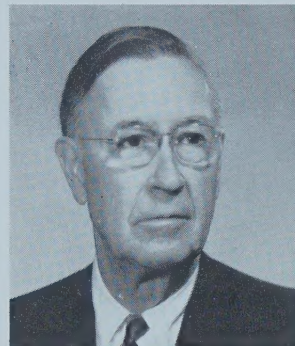
EDWARD ADAMS, JR.
*President, National Bank &
Trust Co. of Ann Arbor
Ann Arbor, Michigan*



FLOYD A. BOND
*Dean, Graduate School of
Business Administration
University of Michigan
Ann Arbor, Michigan*



CLIFFORD H. DOMKE
*Partner, Badgley, Domke,
Morrison, McVicker &
Marcoux, Attorneys,
Jackson, Michigan
Elected October 19, 1966.*



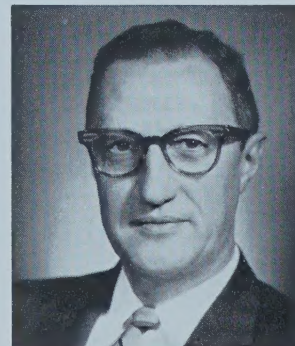
CHARLES HOLLERITH
Consulting Engineer



B. A. MAIN, JR.
*Vice President
Aeroquip Corporation*

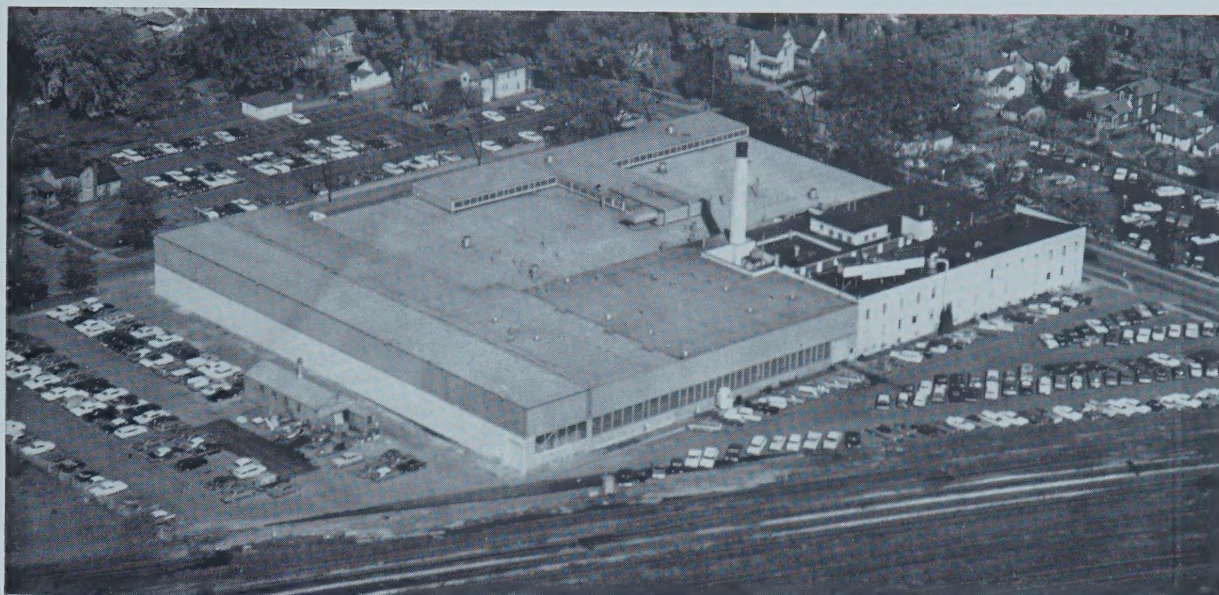


DON T. MCKONE
*Executive Vice President
Aeroquip Corporation*



WALTER E. SCHIRMER
*President
Clark Equipment Company
Buchanan, Michigan*

Aeroquip's main Jackson, Michigan plant, where the Company's corporate headquarters are also located.



Officers

PETER F. HURST, *Chairman of the Board and President*

DON T. MCKONE, *Executive Vice President*

B. A. MAIN, JR., *Vice President, Engineering*

KENT R. MANNING, *Vice President and General Manager, Aircraft Division*

W. F. ROGGE, *Vice President and General Manager, Industrial Division*

J. M. VAN DAM, *Vice President and General Manager, Marman Division*

J. O. HEYWORTH, *Vice President and General Manager, Barco Division*

F. M. DAVISON, *Treasurer*

F. W. CORWIN, *Secretary*

D. A. RUMGAY, *President, Aeroquip (Canada) Ltd.*

H. W. KUNTH, *General Manager, Aeroquip G.m.b.H. Germany*

E. R. ZACHARIAS, *General Manager, Republic Rubber Division*

Transfer Agents

IRVING TRUST COMPANY
New York, N. Y.

NATIONAL BANK OF DETROIT
Detroit, Michigan

Registrars

MANUFACTURERS HANOVER TRUST
COMPANY, *New York, N. Y.*

DETROIT BANK & TRUST COMPANY
Detroit, Michigan

Legal Counsel

BADGLEY, DOMKE, MORRISON, McVICKER
& MARCOUX, *Jackson, Michigan*

Traded

NEW YORK STOCK EXCHANGE



**AEROQUIP
CORPORATION**

Jackson,
Michigan
49203